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Norwest to Buy Healthy Thrift In Minnesota

By WENDY GROVER

NEW YORK — Prompted by its inability to meet new federal capital requirements, First Minnesota Savings Bank, a $3 billion Minneapolis thrift with 50 branches, has agreed to be acquired by Norwest Corp., Minneapolis.

Terms of the tentative agreement, which was announced late Tuesday, are still being worked out. But since First Minnesota is a mutually owned thrift, Norwest could acquire the thrift at a low price because there are no shareholders to be compensated. A mutual is a thrift owned by its depositors.

Norwest, a $22 billion-asset superregional company, would increase its assets by more than $3 billion and increase its already strong presence in the Minneapolis-St. Paul market.

A Healthy Thrift

"They're paying nothing for it," said Ben Crabtree, bank analyst at Dain Bosworth Inc. in Minneapolis.

First Minnesota is considered a healthy thrift, but its capital does not meet the new federal guidelines. Analysts said the thrift has good credit quality and would likely report a profit for 1989.

Officials at Norwest and First Minnesota declined to elaborate on their joint press release.

Analysts said the acquisition would enable Norwest to strengthen its position against its archrival, the $24 billion-asset First Bank System, Minneapolis.

Mr. Crabtree estimated the acquisition would increase Norwest's consumer deposits in the Twin Cities region by about 50%, to about $6 billion.

Analysts predicted substantial cost

See NORWEST: Next Page ➤

Gottlieb Exits As Staff Director Of Senate Panel

By ROBERT M. GARSSON

WASHINGTON — Kevin Gottlieb, the embattled staff director of the Senate Banking Committee and a longtime aide to Sen. Donald Riegle, D-Mich., announced Wednesday he will leave his Capitol Hill post on March 1 to return to the private sector. He will be succeeded by Steven B. Harris, the committee counsel.

Mr. Gottlieb has been controversial almost from the day he arrived at the banking committee a year ago. Most recently, it was disclosed that he had received $85,000 in fees from the American Bankers Association during the 17 months preceding his appointment as staff director.

Though legal, the payment raised eyebrows because it directly preceded congressional action on what turned out to be the most significant piece of financial services industry legislation since the Depression.

Payments Weren't Disclosed

More disturbing to some was Mr. Gottlieb's failure to disclose the payments, even though he was not required by Senate rules to do so.

Consumer advocate Ralph Nader said it looked "suspiciously like a deferred bribe," and congressional staffers and industry lobbyists alike said they were reevaluating the history of the thrift legislation in light of the connection.

Mr. Gottlieb said in an interview earlier this week that he did not mention it because he was not asked and he was not required to do so.

In an interview on Wednesday, he denied that he was leaving for any reason other than a desire to return to the private sector where, he said, he will "do some teaching and some consulting work." He declined to elaborate.

See GOTTLIEB: Page 10 ➤

Bank Stocks Continue to Tumble On Dim Outlook for Earnings

By JOHN FORDE

NEW YORK — Wall Street's expectations of earnings that many major banks will report in coming weeks have turned gloomy. And the rate at which analysts are cutting profit predictions is steepening the slide in bank stock prices.

Citing continued troubles in domestic and international loan portfolios as well as sluggish noninterest income, bank analysts have cut their profit estimates for five times as many banks as they have raised in recent weeks.

In the month ended last Friday, the consensus estimate for 25 major banking companies declined, and estimates rose for only five, according to Institutional Brokers Estimate System, a division of Lynch Jones & Ryan, New York, which tracks analysts' estimates.

The IBES figures showed the consensus estimate of full-year earnings per share for 287 publicly owned banking firms fell by 5%, to $1.96, or 42.6% less than for 1988.

Investors Pessimistic

Investors, too, are becoming more pessimistic on most major bank stocks, especially money-centers. Estimates of lower-than-expected fourth-quarter

See EARNINGS: Page 10 ➤

Banks Told to Write Down 20% More Of Argentine Debt; Reserves May Rise

By JAMES R. KRAUS

NEW YORK — In a move that could prompt another round of increases in loan-loss reserves, federal regulators have ordered U.S. banks to write down their medium-term and long-term loans to Argentina by another 20% because of the country's deteriorating economic condition.

It is the second writedown U.S. banks have been forced to take on their Argentine loans. In May, federal regulators forced banks to write down their loans by 20% after Argentina defaulted on its debt.

Analysts said Wednesday that they expected the chargeoffs would be taken against reserves already set aside for Third World loan losses and will not have an impact on fourth quarter or yearend earnings.

The impact of the writedown will vary from bank to bank depending on the level of its loans to Argentina and its reserves against Third World loan losses.

Manufacturers Hanover, for example, will have to chargeoff $224.6 mil-

See BANKS: Page 9 ➤

Loan Exposure To Argentina

Medium- and long-term loans

	$ in millions	% of total equity
Manufacturers Hanover	$1,123	45 %
Citicorp	800	7
Chase Manhattan	660	16
J.P. Morgan*	570	14
BankAmerica	400	8
Chemical Banking	349	11
Continental Bank	240	14
Bankers Trust*	214	9
Bank of New York	181	7
First Chicago	78	3

*Figures are for total outstandings

Source: Keefe, Bruyette & Woods Inc.

Today

The SEC's moves to police bank and thrift securities activities may be a first step toward regulating that function. 2

Chase Manhattan Bank is the latest institution to offer New York consumers a packaged bank account. 3

A unit of Nynex Corp. is working on an electronic payments system for commuters that travel on New Jersey Transit. 2

The Office of Thrift Supervision has restricted the activities of two former officers of the failed Silverado Banking, Savings and Loan Association, Denver. 2

Lechmere Inc., a Northeast retailer, has contracted with a unit of Sears to process its private-label credit cards and finance the program's receivables. 3

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COMMENT

The Key to Successful Acquisitions

By SANFORD ROSE

Good expense control is the single most important factor that appears to correlate with success in bank acquisitions, notes a study just published by the Bank Administration Institute and authored by FMCG Capital Strategies.

But what constitutes good expense control? Analysts have traditionally evaluated expense performance through the use of standard ratios such as noninterest expense to assets or noninterest expense to revenue.

But these ratios are not particularly illuminating since banks with different business mixes have different levels of expenses to assets or expenses to revenues. For example, banks that specialize in fee-based services have expense levels that are typically about 40% higher than those that make most of their money lending to middle-market borrowers.

To determine whether a bank is really good at cost control, its expense level must be compared to that of the average institution in its particular business peer group. Thus a fee-based bank with an expense-to-assets ratio of 425 basis points turns out to be a good cost controller. That's because the average bank in the fee-based peer group has an expense-to-assets ratio of about 450 basis points.

But a middle-market lender with a lower expense ratio – say, 350 basis points – nevertheless is a poor expense performer. That's because the median middle-market lender has expenses equal to only about 320 basis points of assets.

Preserving Equity Values

Using a model that relates expenses to business mix, FMCG Capital Strategies analyzed the stock price performance of above-average as well as below-average cost controllers that elected to acquire other banks from 1982 through 1986. It found that only those acquirers in the top quartile of expense performance managed to preserve and even enhance their post-acquisition equity valuations, compared, that is, to the valuations of banks of similar size located in the same geographic areas.

More specifically, two years after acquiring other banks, those institutions that were ranked among the top 25% in expense control had stock prices equal to 104% of their size peers. By contrast, those ranked in the second quartile had stock prices equal to only 92% of the peer level.

The stock of third-quartile expense controllers had fallen to a 22% discount relative to that of their size peers. And the poorest cost controllers – those in the bottom quartile – had sustained the largest haircut. Their stock was trading at a discount of 29%.

The data suggest that acquirers good at expense control can transfer this skill to their acquirees. An analysis of 88 in-state acquisitions where the acquired bank was not consolidated into the financials of the acquirer reveals that in 28% of the cases, acquirers rated best in expense management – the top-quartile performers – were able to improve their acquirees' cost performance by more than 50 basis points.

The acquirers in the second and third quartiles of expense control were able to improve acquirees' expense performance by more than 50 basis points in only 17% of the cases. And acquirers in the worst quartile were never able to upgrade the expense performance of acquirees by this amount.

The data also reveal the close connection between good expense control and improved returns on equity. Those acquirers in the best expense-control quartile bought banks with an average pre-acquisition ROE of 11.3%. After acquisition, the ROEs of these acquirers rose to 15.8% – a gain of 4.5 percentage points. Acquirers that were

See COMMENT: Page 10 ➤

The Lobbyists

By Barbara A. Rehm

Community Banks Trying to Head Off Added Regulation

Community bankers came to Washington this week to lobby against mounting regulation. **S. David Gohn**, president of **West Plains Bank**, West Plains, Mo., and chairman of the American Bankers Association's **Community Bankers Council**, acknowledges that bankers are unlikely to convince anyone to lift existing regulations.

S. David Gohn

But the 15-member council spread out across Capitol Hill to let lawmakers know that the cost of compliance has gotten out of hand. Mr. Gohn says the main goal was to deter lawmakers from passing any further onerous legislation.

The community bankers also met with regulators at the Comptroller of the Currency and the Federal Deposit Insurance Corp. to urge uniform examination procedures, Mr. Gohn said.

The ABA council meets every January in Washington as part of its five yearly meetings. "It allows us to get our year of strategic planning in gear," he says. Next stop is Scottsdale, Ariz., Feb. 18 to 23 for the council's national conference.

Big, Small Banks Escalate Their Wrangle in California

Possibly nowhere in America is the wrangle between large and small banks more tangled than in California.

Robb Evans, a director of the California Bankers Association, rebuts claims made in this column last week by **Craig Hudson**, western regional director of the Independent Bankers Association **of America**.

Mr. Evans, who is also president and chief executive officer of **First Indo-American Bank**, San Francisco, heads a CBA committee concerned with revamping the state's banking law. He disputes Mr. Hudson's statement that the CBA did not consult with the independent banking group before it sent its recommendations to state lawmakers.

"That is either a misquote or a lie," Mr. Evans says. "They were consulted repeatedly over a long period of time."

Mr. Hudson says it was not a misquote. "The fact remains that they never consulted us," he repeats. Mr. Hudson does acknowledge that he got all the papers produced by Mr. Evans' task force. But Mr. Hudson says: "You don't get in on the process by getting the paper after it's composed."

Mr. Evans says that any California banker could have joined the task force, but that no trade groups were invited. "We didn't want hired guns," Mr. Evans says. "I also didn't ask the **American Bankers Association** to get involved."

Mr. Evans charges that Mr. Hudson is claiming to be ignored by CBA and is hiring his own lobbyist as a stunt to attract members. Mr. Hudson says: "I think that's my job."

Homebuilders Snag Bush As Speaker at Convention

The **National Association of Homebuilders** snagged the ultimate lobbying opportunity when it convinced **President Bush** to address its national convention Jan. 19 in Atlanta.

Bill Ellingsworth, a Homebuilders spokesman, says the group's top officers met with Mr. Bush and White House Chief of Staff John Sununu recently. "Our major concern is the loans-to-one-borrower issue," Mr. Ellingsworth explains. The thrift-bailout law required thrifts to follow the same lending rules as national banks, which means thrifts that used to be able to lend up to 100% of their capital to a single borrower may now only lend up to 15% of capital to any customer.

"Our members are not accustomed to shopping around and having to get loans at 10 places," he says.

Everything You Wanted To Know About Lobbying

Thanks to **John L. Zorack**, anybody with $125 and the time to read 1,118 pages can learn the basics of lobbying.

Mr. Zorack wants to put the art of lobbying in reach of everyone. He spent seven years writing *The Lobbying Handbook*, a just-published, start-to-finish guide on how to lobby Congress and the executive branch.

The Lobbyist's Motto, according to Mr. Zorack, expands on the Boy Scout's. It is: "Be prepared, be precise, be professional, be patient, and persevere."

The handbook methodically plots how to get what you want from policymakers. It explains the complicated congressional committee structure, including the art of a conference committee; it delves into the bizarre budget-making process, including specifics on how to handle the Office of Management and Budget; and it exposes the best of grass-roots lobbying, including the right way to handle a political action committee.

Mr. Zorack became a lobbyist for the airline industry after a 20-year career with the Marines, during which he earned a variety of degrees including a law degree from Denver University. In 1983, he founded the Professional Lobbying and Consulting Center, which in addition to publishing his book serves as a clearinghouse of sorts for lobbyists. The center connects people in search of a lobbyist with lobbyists in search of clients. ■

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Global View

Japan to Fight Yen Speculation

TOKYO — Bank of Japan governor Yasushi Mieno called currency movements since the New Year very speculative and said Japan and other major nations will continue to take strong concerted action against them.

Mr. Mieno told a press conference that he sees no need now for major nations to meet to reconfirm their commitment to currency stability because policy coordination among major nations remains steadfast.

The currency market has been affected since Jan. 1 by speculation concerning scandals involving politicians of the ruling Liberal Democratic Party and the political situation in the Soviet Union, Mr. Mieno said.

In a rumor-driven market, the most appropriate measure is concerted intervention, he said. Not many people in the market expect the recent trend toward a weaker yen to last long, he added.

— Reuters

$1 Billion Credit Plan Unveiled

QUITO, Ecuador — The government hopes to receive $1 billion in foreign credits and plans to reduce annual inflation to no more than 30% this year, Presidency Minister Washington Herrera said.

"We propose mobilizing about $1 billion in approved foreign loans," Mr. Herrera told a press conference, referring to credits from banks, lending agencies, and governments.

Ecuador plans to reduce annual inflation to between 25% and 30% by December, Mr. Herrera said, compared to 54% in 1989. The nation has foreign debt of about $11 billion, about half of which is owed to commercial banks.

— Reuters

Bank of Trade Changes Name

LOS ANGELES — Bank of Trade, one of the oldest Asian-owned banks in California, is changing its name Jan. 18 to Lippobank.

"We wanted the bank to become more directly affiliated with the Lippo Group, our parent company," said David T. Yeh, president. "In addition, the name 'Bank of Trade' may suggest that we primarily focus on servicing business accounts while, in fact, we offer comprehensive financial services to both commercial and consumer clients."

Bank of Trade, which reported assets of $148 million at Sept. 30, 1989, has four branches in California.

Lippo Group, a multibillion-dollar financial services network with banking operations in Hong Kong, Indonesia, New York, and California, acquired Bank of Trade five years ago.

— Reuters

Trustee Paid on Bond Brewing Notes

BOSTON — The First National Bank of Boston, in its capacity as trustee for holders of notes issued by Bond Brewing Holdings Ltd., announced Wednesday that it has received payment on a sight draft submitted to National Australian Bank Ltd.

The sight draft will permit payment on Bond Brewing's zero coupon notes due Jan. 22, 1991.

The submission by the Bank of Boston Corp. subsidiary was the result of an automatic acceleration of the notes when receivers were appointed Dec. 29 for Bond Brewing Holdings in Australia.

— Reuters

Yen Shortage Spurs T-Bill Offer

TOKYO — The Bank of Japan offered to buy about $1.4 billion worth of T-bills, or short-term government discount paper, from a limited number of banks and discount houses through repurchase agreements, a central bank official said.

The bills will be bought through a yield-competitive tender, he said; settlement will be Friday, and maturity, Feb. 14.

Due to tax payments Friday, the money market faces a yen shortage equivalent to nearly $15.2 billion.

— Reuters

Hanover Plans Big Growth in Spain

Bank to Ride Nation's Boom with 22 Branches After '92

By JAMES R. KRAUS

NEW YORK — Manufacturers Hanover Trust Co. plans a major expansion of its operations in Spain to take advantage of the country's booming financial markets.

James R. Brokken, executive vice president for Western Europe, said in a recent interview that the bank intends to expand its Spanish branch network to 27 from 5 and will establish a brokerage unit to underwrite and distribute securities. The bank also wants to increase its management of mutual funds and commercial paper programs.

"We've been closely tied to Spain for years and want to get closer to our customers and closer to investors," Mr. Brokken said in the interview in his New York office.

James R. Brokken
Executive VP, Manufacturers Hanover

Branches Slated After '92

The new Spanish branches are not likely to open until after 1992, Mr. Brokken said, when Spain and other member countries of the European Community integrate their financial markets.

Foreign investment has flooded into Spain in recent years and has made the Spanish economy one of the fastest-growing in Europe. Banco Santander, a major Spanish bank, reported the country has the fifth-largest economy in the European Community and 7.5% average annual growth in gross national product.

However, tight liquidity in Spain is driving a rapidly rising number of borrowers to capital markets for their funding, Mr. Brokken said.

Manufacturers Hanover is the only foreign bank among six market makers in Spanish treasury bonds, according to Mr. Brokken. He added that his bank has also been a leader in setting up commercial paper programs in Spain, where it first opened a branch in 1964.

Most Profitable Foreign Bank

Mr. Brokken said Manufacturers is the most profitable foreign bank operating in Spain, accounting for 28 percent of all profits by foreign banks at the end of last June. He did not provide specific profit figures.

As part of its strategy to expand operations in southern Europe, Manufacturers also plans to increase its branch network in Portugal, to six from two, to take advantage of economic growth and liquidity shortages in that country.

Mr. Brokken said the bank was concentrating on southern Europe because low inflation, stable interest rates, and powerful domestic competitors in countries like West Germany offer fewer opportunities. ■

Banks Writing Down More of Argentine Debt

➤ Continued from Page 1

lion, or nearly 10% of its $2.4 billion in Third World loan-loss reserves.

At the other end, First Chicago will have to charge-off only $14.6 million, or 1.7% of its $866 million in reserves.have an impact on fourth quarter or year-end earnings.

By writing down bad loans, the banks will be reducing both their reserves and the amount of bad loans outstanding on their books. This means they will have fewer reserves to cover remaining bad loans.

Total Reaches 40%

The latest writedown will bring total chargeoffs for Argentine loans to 40%, meaning that the loans can be carried on banks' books at 60 cents on the dollar. The writedown must be taken in the fourth quarter of 1989.

However, banks with low loan-loss reserves, such as Citicorp, Manufacturers Hanover Corp., and Chemical Banking Corp., may soon have to add to them, which could have an adverse effect on those banks' earnings in the first quarter of next year. But some of the impact will be mitigated because loan writedowns mandated by the government can be deducted from a bank's taxable income.

The impact of the writedown will vary from bank to bank depending on the level of its loans to Argentina and its reserves against Third World loan losses.

Manufacturers, for example, will have to charge off $224.6 million, or nearly 10% of its $2.4 billion in Third World loan-loss reserves. At the other end, First Chicago Corp. will have to charge off only $14.6 million, or 1.7% of its $866 million in reserves.

"My guess is that at some point, the banks are going to have to replenish their reserves, obviously [the writedowns] are only interim steps," said Guillermo Estebanez, assistant vice president and analyst for Latin American debt at Moody's Investors Service.

The Argentine writedown was mandated late last month by the Interagency Country Exposure Review Committee, a joint regulatory body of officials from the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corp. The agency does not make its decisions on foreign loans public, but several banks confirmed that regulators had ordered an Argentine loan writedown.

Total Debt Estimated

Argentina owed U.S. banks $6.5 billion as of the end of June, according Federal Reserve Board statistics, out of a total foreign debt of around $60 billion.

Manufacturers Hanover, Citicorp, and Chase Manhattan Corp. are the three banks most heavily exposed to Argentina. Manufacturers Hanover has $1.12 billion in medium and long term loans, Citicorp $800 million and Chase $660 million. ■

Key International Rates*

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	1/10	1/09	1/03	1/10	1/09	1/03	1/10	1/09	1/03	1/10	1/09	1/03	1/10	1/09	1/03
United States	8.31	8.18	8.50	8.31	8.18	8.37	8.31	8.18	8.31	7.00	7.00	7.00	10.00	10.00	10.50
Japan	6.43	6.37	6.37	6.93	6.93	7.06	7.06	7.06	7.12	4.25	4.25	4.25	4.87	4.87	4.87
Canada	12.50	12.25	12.18	12.37	12.12	12.18	12.18	12.00	11.87	12.44	12.47	12.47	13.50	13.50	13.50
U.K.	15.00	15.06	15.12	15.12	15.12	15.18	15.12	15.06	15.06	N.A.	12.47	12.47	15.00	15.00	15.00
West Germany	7.56	7.56	8.25	8.37	8.37	8.68	8.56	8.62	8.75	6.00	6.00	6.00	9.50	9.50	9.50
Switzerland	9.87	9.87	10.12	9.43	9.37	9.56	9.25	9.12	9.31	6.00	6.00	6.00	8.50	8.50	8.50
France	11.56	11.06	11.18	11.50	11.43	11.75	11.43	11.50	11.75	9.50	9.50	9.50	10.50	10.50	10.50
Italy	11.75	11.50	12.50	12.37	12.75	12.87	12.50	12.87	13.00	13.50	13.50	13.50	14.00	14.00	14.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.02	14.57	8.57	8.87	7.05
6 to 12 months	8.14	13.65	8.45	8.52	7.00
12 to 24 months	8.70	12.60	8.22	7.90	6.76

* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York.

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